

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

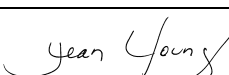
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



# CAPITAL REGION AIRPORT AUTHORITY

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**Financial Report  
with Supplemental Information  
June 30, 2007**

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# Capital Region Airport Authority

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**Plante & Moran, PLLC**

1111 Michigan Ave.  
East Lansing, MI 48823  
Tel: 517.332.6200  
Fax: 517.332.8502  
plantemoran.com

## Independent Auditor's Report

To the Board of Directors  
Capital Region Airport Authority

We have audited the basic financial statements of Capital Region Airport Authority (the "Authority") as of June 30, 2007 and 2006 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited) (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
Capital Region Airport Authority

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 9, 2007 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Plante & Moran, PLLC*

October 9, 2007

# Capital Region Airport Authority

## Management's Discussion and Analysis (Unaudited)

The following management's discussion and analysis (MD&A) of the Capital Region Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, and other statistical information contained in this report.

### Financial Operations Highlights

- Operating revenues increased slightly to \$7,514,508 in 2007 from \$7,351,482 in 2006 as adjusted airline rates and fees, combined with increases in concessions and land rentals, enabled the Authority to maintain consistent revenue levels. Operating revenues decreased slightly to \$7,351,482 in 2006 from \$7,385,756 in 2005 as the Authority was able to adjust rates to mitigate the financial impact of the airline bankruptcies and struggling airline industry.
- Mason Jewett Field's net revenue decreased 5.0 percent to \$129,140 in 2007 from \$135,920 in 2006 due to decreased fuel sales as prices rose dramatically. Mason Jewett Field's net revenue increased 15.1 percent to \$135,920 in 2006 from \$118,118 in 2005 primarily from fuel sales.
- Nonoperating revenue fluctuations are outlined as follows:
  - Tax revenue - The increased revenue is committed to the annual debt retirement, airport development, and capital requirements of the Authority. This commitment is transferred from the airlines to ensure competitive airline rates are maintained. This revenue is also committed to establishing reserves in anticipation of future mandated obligations and/or operating obligations.
  - Investment income is increasing as airport reserves are replenished as needed and conservatively invested.
  - Interest expense will continue to decline as the outstanding bond indenture is retired.
  - Miscellaneous income represents the 80 percent recovery of Northwest and Comair past debt owed the Authority that was secured through the bankruptcy proceedings.
  - Passenger facility charges continue to be reflective of the number of passengers using Capital City Airport, as this is a per passenger fee paid to the Authority.
- Operating expenses, exclusive of depreciation, decreased to \$8,024,798 in 2007 from \$8,187,594 in 2006. This decline was due primarily from the cost savings in labor, fuel, and other supplies as a result of extremely mild winter conditions on the airfield. Operating expenses, exclusive of depreciation, remained constant at \$8,187,594 in 2006 from \$8,173,215 in 2005.

# Capital Region Airport Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

### Financial Operations Overview

Capital Region Airport Authority's mission, to "provide excellent airport facilities and services that exceed our customers' expectations," has driven a strategic plan which clearly enumerates directives designed to promote the recovery of the Authority's passenger base through increased quality and quantity of air service provided at the Capital Region Airport Authority. Thus, management's core objective is to effectively use present revenues generated to implement these growth-oriented directives and to solidify the airport's infrastructure to handle the resulting increase in air service activity. The key performance indicators for the Authority, therefore, relate to changes in net assets, as well as nonfinancial measurements including (but not limited to) passenger count, aircraft landings, and parking lot activity.

The woes and challenges of the airline industry have been well documented. While this industry-wide situation has produced inevitable losses to activity levels, effective cost containment measures coupled with active communications with all airlines have mitigated the financial impact to the Capital Region Airport Authority to date.

### Financial Position Summary

A condensed summary of the Authority's net assets for the years ended June 30 is presented below:

	2007	2006	2005
<b>Assets</b>			
Capital assets	\$ 57,306,281	\$ 54,247,502	\$ 51,745,390
Other	14,041,491	10,614,555	9,234,317
Total assets	<u><u>\$ 71,347,772</u></u>	<u><u>\$ 64,862,057</u></u>	<u><u>\$ 60,979,707</u></u>
<b>Liabilities</b>			
Current	\$ 1,788,349	\$ 815,279	\$ 611,028
Revenue bonds	11,930,878	12,503,798	13,216,718
Other	286,312	349,644	303,555
Total liabilities	<u><u>\$ 14,005,539</u></u>	<u><u>\$ 13,668,721</u></u>	<u><u>\$ 14,131,301</u></u>
<b>Net Assets</b>			
Unrestricted	\$ 6,825,835	\$ 4,979,009	\$ 2,709,331
Restricted	5,750,995	4,470,623	5,610,403
Invested in capital	44,765,403	41,743,704	38,528,672
Total net assets	<u><u>\$ 57,342,233</u></u>	<u><u>\$ 51,193,336</u></u>	<u><u>\$ 46,848,406</u></u>

# Capital Region Airport Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

### Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenue	\$ 7,514,508	\$ 7,351,482	\$ 7,385,756
Operating expense	<u>11,753,295</u>	<u>11,631,791</u>	<u>11,310,902</u>
Operating loss	(4,238,787)	(4,280,309)	(3,925,146)
Nonoperating revenue (expenses):			
Tax revenue	5,087,842	3,176,612	3,141,313
Investment income	412,921	261,476	110,137
Interest expense	(698,549)	(726,919)	(750,289)
Miscellaneous - Net	430,709	29,551	14,294
Passenger facility charges	<u>1,088,059</u>	<u>1,212,476</u>	<u>1,433,700</u>
Net nonoperating revenue	<u>6,320,982</u>	<u>3,953,196</u>	<u>3,949,155</u>
Net income (loss) before capital contributions	2,082,195	(327,113)	24,009
Capital contributions	<u>4,066,702</u>	<u>4,672,043</u>	<u>3,039,527</u>
Net income	<u><b>\$ 6,148,897</b></u>	<u><b>\$ 4,344,930</b></u>	<u><b>\$ 3,063,536</b></u>

### **Capital Asset and Debt Administration**

Capital assets consist of land, buildings, taxiways, runways, machinery, equipment, and improvements in progress. Contributions of \$6,787,278 in 2007 were primarily for loading bridge design, boulevard resurfacing, and the Dewitt Road relocation project. Capital assets increased by \$5,946,309 during 2006, primarily due to the runway extension.

At June 30, 2007 and 2006, the Authority had outstanding bonds totaling \$12,540,878 and \$12,503,798, respectively.

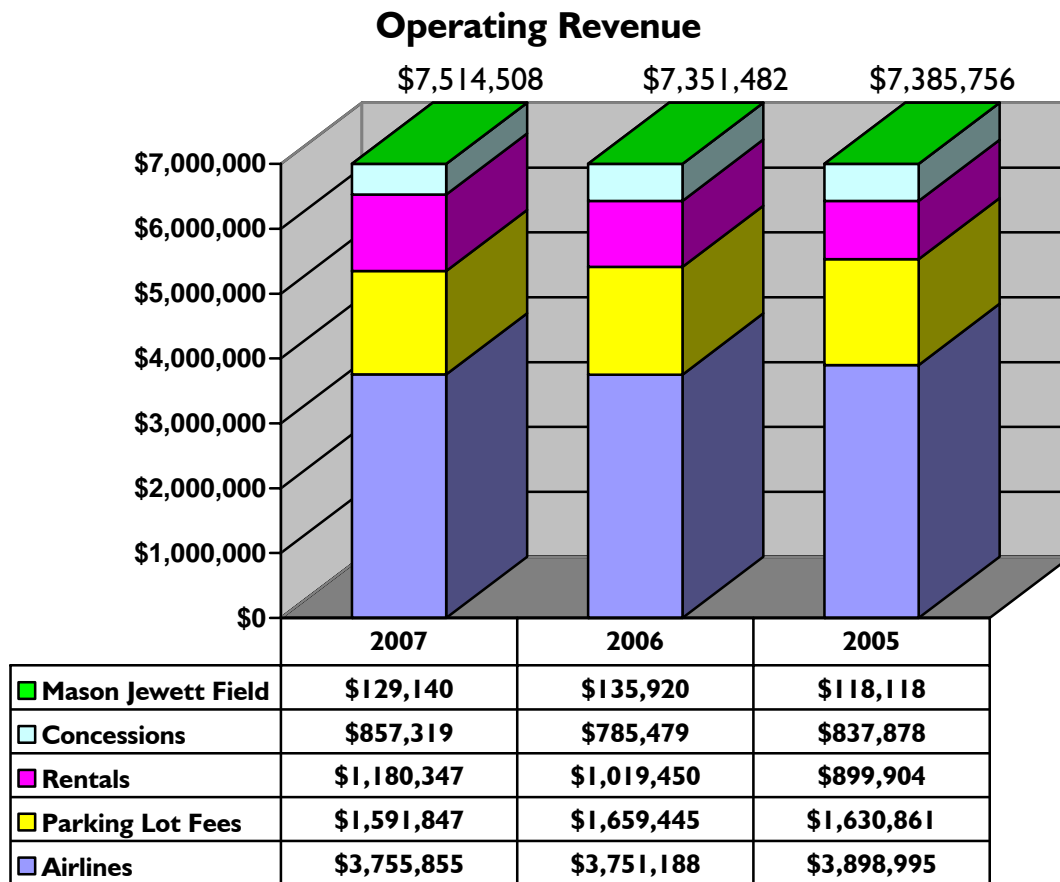


# Capital Region Airport Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

### Revenues

The following chart depicts the Authority's operating revenue sources, and their relationship to the total operating revenues for the years ended June 30 is presented below:

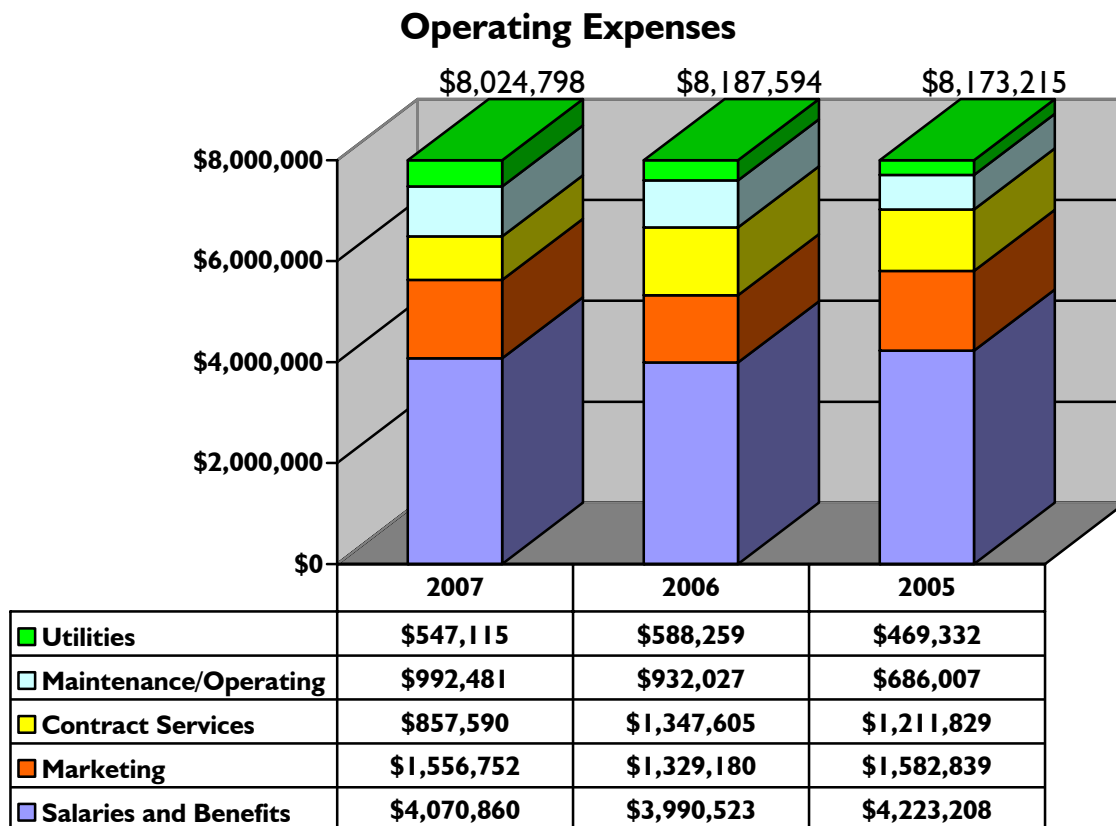


# Capital Region Airport Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

### Expenses

The following chart depicts the Authority's major operating expense categories, exclusive of depreciation, and their relation to the total operating expenses for the years ended June 30 is presented below:



# Capital Region Airport Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

### Airline Rates and Charges

The Authority sets rates and charges annually by adoption of a resolution based on a compensatory (cost of services) methodology. This methodology utilizes the Authority's statement of operations and debt service requirements to allocate these costs to the various air service providers. These rates include the terminal rental rates, landing fees, and airline apron fees. These rates are as follows:

	2007	2006	2005
Terminal rental (exclusive space)	\$ 37.93	\$ 38.08	\$ 37.85
Terminal rental (common space)	26.55	26.65	26.50
Landing fees (signatory rate per 1,000 pounds)	1.75	2.47	2.24
Airline apron fee (per 1,000 pounds)	0.53	0.52	0.28

Note: Figures for 2006 are an average rate as there was a mid-year adjustment to these rates.

### Financial Statements

Capital Region Airport Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction in progress) over their useful lives. Construction in progress projects are closed and transferred to their respective capital accounts upon completion.

### Contacting the Authority's Financial Management

This financial report is intended to provide taxpayers, customers, and bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the Capital Region Airport Authority, 4100 Capital City Boulevard, Lansing, MI 48906.

# Capital Region Airport Authority

## Statement of Net Assets

		June 30	
		2007	2006
<b>Assets</b>			
<b>Current Assets</b>			
Cash and investments (Note 2)	\$	6,395,516	\$ 4,615,497
Trade accounts receivable - Net of allowance for doubtful accounts		1,269,373	899,311
Passenger facility charges receivable		123,847	118,210
Prepaid expenses and other assets		105,575	85,755
Total current assets		7,894,311	5,718,773
<b>Restricted Assets</b> (Notes 2 and 3)		5,750,995	4,470,623
<b>Other Assets</b>		396,185	425,159
<b>Capital Assets</b> (Note 4)		57,306,281	54,247,502
Total assets	<b>\$</b>	<b>71,347,772</b>	<b>\$ 64,862,057</b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$	710,321	\$ 658,562
Accrued bond interest payable		315,998	-
Revenue bonds payable (Note 5)		610,000	-
Compensated absences (Note 6)		152,030	156,717
Total current liabilities		1,788,349	815,279
<b>Noncurrent Liabilities</b>			
Revenue bonds payable - Excluding current installments (Note 5)		11,930,878	12,503,798
Compensated absences (Note 6)		286,312	349,644
Total liabilities		14,005,539	13,668,721
<b>Net Assets</b>			
Invested in capital assets - Net of related debt		44,765,403	41,743,704
Restricted (Note 3)		5,750,995	4,470,623
Unrestricted		6,825,835	4,979,009
Total net assets		57,342,233	51,193,336
Total liabilities and net assets	<b>\$</b>	<b>71,347,772</b>	<b>\$ 64,862,057</b>

# Capital Region Airport Authority

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2007	2006
<b>Operating Revenue</b>		
Airfield	\$ 1,659,979	\$ 1,879,131
Terminal	3,257,243	2,898,192
Leased sites	2,403,889	2,374,339
Airline security screening	64,257	63,900
Mason Jewett Field - Net of fuel sales	129,140	135,920
Total operating revenue	7,514,508	7,351,482
<b>Operating Expenses</b>		
Airfield	1,021,434	1,018,325
Terminal	1,518,028	1,510,594
Fire and security	2,186,546	2,050,236
Administrative	1,671,707	2,179,851
Depreciation	3,728,497	3,444,197
Mason Jewett Field	117,217	145,937
Airport development	1,509,866	1,282,651
Total operating expenses	11,753,295	11,631,791
<b>Operating Loss</b>	(4,238,787)	(4,280,309)
<b>Nonoperating Revenue (Expense)</b>		
Tax revenue	5,087,842	3,176,612
Investment income	412,921	261,476
Interest and finance charges	(698,549)	(726,919)
Miscellaneous - Net	430,709	29,551
Passenger facility charge revenue	1,088,059	1,212,476
Total nonoperating revenue	6,320,982	3,953,196
<b>Net Income (Loss) - Before capital contributions</b>	2,082,195	(327,113)
<b>Capital Contributions</b>	4,066,702	4,672,043
<b>Net Income</b>	6,148,897	4,344,930
<b>Net Assets - Beginning of year</b>	51,193,336	46,848,406
<b>Net Assets - End of year</b>	<u>\$ 57,342,233</u>	<u>\$ 51,193,336</u>

# Capital Region Airport Authority

## Statement of Cash Flows

	Year Ended June 30	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Payments to employees	\$ (4,085,396)	\$ (4,123,785)
Payments to suppliers	(3,955,662)	(3,813,469)
Charges and rentals	<u>7,179,876</u>	<u>7,629,955</u>
Net cash used in operating activities	(861,182)	(307,299)
<b>Cash Flows from Noncapital Financing Activities</b>		
Miscellaneous receipts	430,709	29,551
Taxes collected	<u>5,021,899</u>	<u>3,176,612</u>
Net cash provided by noncapital financing activities	5,452,608	3,206,163
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal payments on revenue bonds payable	-	(750,000)
Interest paid	(315,998)	(658,865)
Capital expenditures - Net	(2,710,380)	(1,278,263)
Passenger facility charges collected	<u>1,082,422</u>	<u>1,273,745</u>
Net cash used in capital and related financing activities	(1,943,956)	(1,413,383)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	-	1,001,997
Purchase of investments	(1,832,905)	(95,470)
Interest earned on investments	<u>412,921</u>	<u>261,476</u>
Net cash (used in) provided by investing activities	<u>(1,419,984)</u>	<u>1,168,003</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,227,486	2,653,484
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>6,885,458</u>	<u>4,231,974</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 8,112,944</b></u>	<u><b>\$ 6,885,458</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and investments	\$ 6,395,516	\$ 4,615,497
Restricted cash and investments	5,750,995	4,470,623
Less amounts classified as investments	<u>(4,033,567)</u>	<u>(2,200,662)</u>
Total cash and cash equivalents	<u><b>\$ 8,112,944</b></u>	<u><b>\$ 6,885,458</b></u>

**Supplemental Cash Flow Information** - Capital contributions amounting to \$3,789,610 and \$4,672,043 were received from both the federal government and the State of Michigan during 2007 and 2006, respectively, and were recorded as additions to property, buildings, equipment, and Authority revenue.

# Capital Region Airport Authority

## Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2007	2006
Operating loss	\$ (4,238,787)	\$ (4,280,309)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	3,728,497	3,444,197
Bad debt expense	1,291	479,179
Increase in assets:		
Accounts receivable	(316,103)	(157,845)
Other current assets	(19,820)	(42,861)
Increase (decrease) in liabilities:		
Accounts payable	51,759	213,339
Compensated absences payable	(68,019)	37,001
Net cash used in operating activities	<u>\$ (861,182)</u>	<u>\$ (307,299)</u>

# Capital Region Airport Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 1 - Description of Organization and Summary of Significant Accounting Policies**

**Reporting Entity** - Capital Region Airport Authority (the "Authority") was established on October 1, 1970 as a result of Public Act No. 73 of the Public Acts of 1970. The law took immediate effect upon the governor's signature on July 16, 1970. The Authority is charged with the responsibility of all public airport facilities within the jurisdictional confines of the Authority. As required by accounting principles generally accepted in the United States of America, these financial statements present Capital Region Airport Authority. No other component units have been combined into the Authority's basic financial statements.

**Basis of Presentation** - The financial statements include the accounts of the Authority and have been prepared on the accrual basis. The significant accounting policies of the Authority, as summarized below, conform with proprietary fund accounting and reflect practices appropriate to the regulatory environment in which it operates.

**Basis of Accounting** - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to first apply restricted resources.

**Cash and Cash Equivalents** - The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

**Investments** - Investments are stated at fair value, based on quoted market prices, and consist principally of money market funds, mutual funds, and governmental securities.



# Capital Region Airport Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)**

**Trade Accounts Receivable** - Accounts receivable represents amounts due from airlines and other entities. An allowance for doubtful accounts is recognized based on a specific assessment of receivable balances that remain unpaid. The allowance is determined based on management's estimate of amounts recoverable from each entity. Amounts deemed to be uncollectible are written off in the period that the determination is made. At June 30, 2007 and 2006, the allowance for doubtful accounts was \$20,000 and \$538,029, respectively.

**Other Assets** - Other assets primarily include the bond issue costs on the revenue bond issues, which are being amortized using the interest method over the term of the respective issues.

**Capital Assets** - Capital assets are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Costs incurred by the Authority for capital improvement projects are accumulated as airport improvements in progress until the project becomes operational, at which time such costs are transferred to the appropriate capital asset account.

**Revenue/Expenses** - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

**Property Taxes** - Ingham and Eaton Counties collect taxes on behalf of the Authority. The 2006 taxable valuation of properties totaled \$7,522 million (a portion of which is abated and a portion of which is captured by other jurisdictions), on which ad valorem taxes levied consisted of .7079 mills for operating purposes. This resulted in \$5.1 million of tax revenue for the Authority.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# Capital Region Airport Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2007 and 2006, the Authority had \$8,124,452 and \$6,889,902, respectively, of bank deposits (checking and savings accounts), of which \$7,503,983 and \$5,459,697, respectively, was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At June 30, 2007 and 2006, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
<b>June 30, 2007:</b>		
U.S. government or agency bond or note	\$ 350,850	.5 years
<b>June 30, 2006:</b>		
U.S. government or agency bond or note	\$ 348,506	1.5 years

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>June 30, 2007:</b>			
Mutual funds	\$ 3,682,717	AAA	Standard & Poor's
<b>June 30, 2006:</b>			
Mutual funds	\$ 1,852,156	AAA	Standard & Poor's

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 3 - Restricted Assets

The restricted funds at June 30, 2007 and 2006 are required under the Authority's 2002 revenue bond resolutions and the provisions of the Federal Passenger Facility Charge Program. These funds, which consist of cash and investments, are segregated into the following funds:

	Required Reserves	
	2007	2006
Passenger facility charge deposits	\$ 1,880,972	\$ 1,770,516
Bond interest and redemption fund	925,998	-
Bond reserve account	1,279,425	1,249,107
Renewal and replacement account	300,000	300,000
Operations and maintenance reserve account	1,364,600	1,151,000
Total restricted assets	<u>\$ 5,750,995</u>	<u>\$ 4,470,623</u>

Requirements of the following reserve account must be maintained if not expended on approved projects:

- **Passenger Facility Charge Deposits** - These deposits are funds collected from passengers in conjunction with the Federal Passenger Charge Program. The funds may only be used for projects approved by the Federal Aviation Administration in the Authority's record of decision.

Requirements of the following reserve accounts must be maintained at all times:

- **Bond Interest and Redemption Fund** - This fund is restricted for payment of the current portion of bond principal and interest. Payments due July 1, 2006 were paid prior to June 30, 2006.
- **Bond Reserve Account** - This account maintains a reserve for the lesser of the following: 10 percent of the initial face amount of the Series 2002 Bonds, the maximum annual principal and interest requirements on the Series 2002 Bonds for a calendar year, or 125 percent of the average annual principal and interest requirements on the Series 2002 Bonds.
- **Renewal and Replacement Account** - This account was created to establish and maintain a reserve of \$300,000 to be used to pay unanticipated emergency repairs at the Authority's facilities.

# Capital Region Airport Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 3 - Restricted Assets (Continued)**

Requirements of the following reserve account must be fulfilled prior to the issuance of additional debt of a prior or equal standing with respect to rights in liquidation of existing debt.

**Operations and Maintenance Reserve Account** - This account maintains a reserve for operations and maintenance expenses equal to two months of the cost of operating and maintaining Authority facilities during the immediately preceding fiscal year of the Authority.

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	June 30, 2007	Depreciable Life - Years
<b>Capital Assets Not Being Depreciated</b>				
Land:				
Capital City Airport	\$ 9,266,658	\$ -	\$ 9,266,658	
Mason Jewett Field	860,639	-	860,639	
Total land	10,127,297	-	10,127,297	-
Airport improvements in progress	11,327,358	4,973,065	16,300,423	-
Total capital assets not being depreciated	21,454,655	4,973,065	26,427,720	
<b>Other Capital Assets</b>				
Land improvements - Capital City Airport	9,149,308	460,370	9,609,678	10-20
Buildings and improvements:				
Capital City Airport	33,642,873	146,266	33,789,139	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	33,847,676	146,266	33,993,942	10-20
Runways and taxiways:				
Capital City Airport	23,582,810	133,186	23,715,996	
Mason Jewett Field	2,485,955	-	2,485,955	
Total runways and taxiways	26,068,765	133,186	26,201,951	20
Machinery and equipment:				
Capital City Airport	12,221,789	1,074,391	13,296,180	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	12,258,975	1,074,391	13,333,366	3-10
Master plan:				
Capital City Airport	571,232	-	571,232	
Mason Jewett Field	243,000	-	243,000	
Total master plan	814,232	-	814,232	20
Subtotal other capital assets	82,138,956	1,814,213	83,953,169	
<b>Less Accumulated Depreciation</b>	<b>49,346,109</b>	<b>3,728,499</b>	<b>53,074,608</b>	
Other capital assets - Net	32,792,847	(1,914,286)	30,878,561	
Net total capital assets	<u>\$ 54,247,502</u>	<u>\$ 3,058,779</u>	<u>\$ 57,306,281</u>	

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2006 was as follows:

	July 1, 2005	Additions	June 30, 2006	Depreciable Life - Years
<b>Capital Assets Not Being Depreciated</b>				
Land:				
Capital City Airport	\$ 8,876,261	\$ 390,397	\$ 9,266,658	
Mason Jewett Field	860,639	-	860,639	
Total land	9,736,900	390,397	10,127,297	-
Airport improvements in progress	14,615,208	(3,287,850)	11,327,358	-
Total capital assets not being depreciated	24,352,108	(2,897,453)	21,454,655	
<b>Other Capital Assets</b>				
Land improvements - Capital City Airport	8,873,452	275,856	9,149,308	10-20
Buildings and improvements:				
Capital City Airport	32,583,538	1,059,335	33,642,873	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	32,788,341	1,059,335	33,847,676	10-20
Runways and taxiways:				
Capital City Airport	20,367,351	3,215,459	23,582,810	
Mason Jewett Field	2,326,702	159,253	2,485,955	
Total runways and taxiways	22,694,053	3,374,712	26,068,765	20
Machinery and equipment:				
Capital City Airport	8,087,930	4,133,859	12,221,789	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	8,125,116	4,133,859	12,258,975	3-10
Master plan:				
Capital City Airport	571,232	-	571,232	
Mason Jewett Field	243,000	-	243,000	
Total master plan	814,232	-	814,232	20
Subtotal other capital assets	73,295,194	8,843,762	82,138,956	
<b>Less Accumulated Depreciation</b>	45,901,912	3,444,197	49,346,109	
Other capital assets - Net	27,393,282	5,399,565	32,792,847	
Net total capital assets	\$ 51,745,390	\$ 2,502,112	\$ 54,247,502	

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Capital Assets (Continued)

Airport improvements in progress consist of the following:

	2007	2006
Federal projects:		
Project 3403 - Lansing Security Upgrades	\$ 4,765,500	\$ 4,647,126
Project 3604 - Runway Extension E.A./P.E.	520,068	520,068
Project 3704 - West Access Road	1,005,604	1,039,304
Project 3805 - Wetland Mitigation	4,333,777	4,054,405
- Benefit Cost Analysis	61,880	33,320
Project B.26.0106.0904 - Mason Jewett Field	36,646	25,000
Project B-26-0106-1106 - Mason Jewett Taxiway Relocation	456,300	74,380
Project 3906 - Dewitt Road Land Purchase	3,018,454	112,802
Project 2000-0863/A3 - Loading Bridge Design (Phase I)	750,587	19,769
Project 4007 - Cargo Phase I	114,600	-
- Rehab Terminal Apron	46,960	-
- Parcel 128 Demolition	5,425	-
- 405 Survey Runway Ext. Phase II	10,504	-
Project 3906 - Road Designs	145,000	-
- Taxiway Phase II	142,607	-
Project 2005-0335 - P.A. System Upgrade	48,227	-
Authority projects:		
Business Park	226,250	226,250
TSA Remodel	37,100	-
Master Plan/Part 150	574,934	574,934
Total	<u>\$ 16,300,423</u>	<u>\$ 11,327,358</u>



# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Revenue Bonds Payable

Revenue bonds payable consist of the following at June 30:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
Series 2002 - B	\$ 13,060,000	\$ -	\$ 13,060,000	\$ 610,000
Less bond discount	(124,152)	8,277	(115,875)	-
Deferred amount on refunding of bonds	<u>(432,050)</u>	<u>28,803</u>	<u>(403,247)</u>	<u>-</u>
Total	<u>\$ 12,503,798</u>	<u>\$ 37,080</u>	<u>\$ 12,540,878</u>	<u>\$ 610,000</u>

The Authority issued revenue bonds in the amount of \$15,330,000 dated March 15, 2002 (Series B) for the purpose of refunding Series 1992 Bonds which were for the purpose of constructing new hold rooms, ticket counters, and offices, other renovations and improvements to the terminal building, and improvements to the parking lot and terminal circulation roadways. The bonds bear interest at an average rate of 4.9 percent. The bonds are secured by a first lien upon the net revenue, as defined, of the Authority.

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Revenue Bonds Payable (Continued)

The annual requirements to amortize the Series 2002-B Revenue Bonds and related interest at June 30, 2007 are as follows:

Years Ending June 30	Principal Due July 1	Interest Due	
		July 1 and January 1	Total
2008	\$ 610,000	\$ 620,100	\$ 1,230,100
2009	635,000	595,346	1,230,346
2010	670,000	568,250	1,238,250
2011	695,000	538,896	1,233,896
2012	730,000	507,173	1,237,173
2013	765,000	472,779	1,237,779
2014	805,000	435,672	1,240,672
2015	845,000	395,650	1,240,650
2016	885,000	352,823	1,237,823
2017	935,000	307,323	1,242,323
2018	985,000	259,323	1,244,323
2019	1,035,000	208,305	1,243,305
2020	1,095,000	153,169	1,248,169
2021	1,155,000	94,107	1,249,107
2022	1,215,000	31,894	1,246,894
Total	<u>\$ 13,060,000</u>	<u>\$ 5,540,810</u>	<u>\$ 18,600,810</u>

### Note 6 - Compensated Absences

Compensated absences activity for the years ended June 30, 2007 and 2006 was as follows:

2007	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Compensated absences	<u>\$ 506,361</u>	<u>\$ -</u>	<u>\$ 68,019</u>	<u>\$ 438,342</u>	<u>\$ 152,030</u>

2006	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Compensated absences	<u>\$ 469,360</u>	<u>\$ 37,001</u>	<u>\$ -</u>	<u>\$ 506,361</u>	<u>\$ 156,717</u>

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 7 - Leases

The Authority leases land, terminal space, and offices to various entities under the terms of noncancelable operating leases. Substantially all leases include a provision for future rental adjustments based upon changes in the Consumer Price Index. Rental receipts include minimum rentals plus contingent rentals based on sales volume.

Rental income from the operating leases consisted of the following:

	2007	2006
Minimum rental	\$ 3,150,889	\$ 2,751,329
Contingent rentals	<u>2,441,009</u>	<u>2,442,425</u>
Total	<u>\$ 5,591,898</u>	<u>\$ 5,193,754</u>

Future minimum lease rentals to be received under noncancelable operating leases, with initial or remaining lease terms in excess of one year, as of June 30, 2007 are as follows:

2008	\$ 1,026,816
2009	925,188
2010	932,383
2011	935,111
2012	755,832
Later years through 2051	<u>7,008,533</u>
Total	<u>\$ 11,583,863</u>

### Note 8 - Defined Benefit Pension Plan

**Plan Description** - The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The system provides retirement, disability, and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from the employees of 0.36 percent, 0 percent, and 6.78 percent from AFSCME Capital City Airport Chapter of Local 1390, Public Safety Department Unit, and Public Safety Department Sergeants Unit, respectively.

# Capital Region Airport Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 8 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the years ended June 30, 2007 and 2006, the Authority's annual pension cost was equal to the Authority's required and actual contribution. The annual required contribution for 2007 and 2006 was determined as part of an actuarial valuation at December 31, 2004 and 2003, respectively, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, and (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority and merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

### Three-year Trend Information

Years Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 463,438	100	\$ -
2006	462,496	100	-
2005	491,334	100	-

Valuation Date	Actuarial Asset Values	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2006	\$ 8,091,185	\$ 12,423,355	\$ 4,332,170	65	\$ 2,625,591	165
December 31, 2005	7,594,015	11,958,406	4,364,391	64	2,512,190	174
December 31, 2004	7,203,545	11,611,168	4,407,623	62	2,681,975	164

# Capital Region Airport Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 9 - Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Authority has been notified of a claim against the Authority and has filed counterclaims against this matter. In the opinion of management and its legal counsel, the settlement of these actions should have no material effect upon the financial position of the Authority.

### **Note 10 - Postemployment Benefits**

The Authority provides health care benefits to all full-time employees upon retirement. Currently, 25 employees are eligible. The Authority includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during 2007 and 2006, this amounted to approximately \$218,000 and \$200,000, respectively.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.